

**ST. JUDE'S RANCH FOR CHILDREN, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2019**



HOULDSWORTH, RUSSO & COMPANY

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**ST. JUDE’S RANCH FOR CHILDREN, INC.**

**JUNE 30, 2019**

**CONTENTS**

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT .....	1-2
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	3
CONSOLIDATED STATEMENT OF ACTIVITIES .....	4
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES.....	5
CONSOLIDATED STATEMENT OF CASH FLOWS.....	6-7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS .....	8-20
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	21-22
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE .....	23-24
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	25
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	26
SCHEDULE OF FINDING AND QUESTIONED COSTS .....	27-28

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
St. Jude's Ranch for Children, Inc. and Subsidiaries  
Boulder City, Nevada

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of St. Jude's Ranch for Children, Inc. and Subsidiaries (all nonprofit organizations), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Jude's Ranch for Children, Inc. and Subsidiaries as of June 30, 2019, and the changes in their net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Certified Public Accountants  
**20 YEARS & COUNTING**

HOULDSWORTH, RUSSO & COMPANY

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## ***Other Matters***

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2019, on our consideration of St. Jude's Ranch for Children, Inc. and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Jude's Ranch for Children, Inc. and Subsidiaries' internal control over financial reporting and compliance.

*Houldsworth, Russo & Company, P.C.*

Las Vegas, Nevada  
October 8, 2019

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2019**

ASSETS

CURRENT ASSETS

Cash and equivalents	\$ 933,482
Cash and equivalents, with donor restrictions	105,144
Investments	916,912
Investments, with donor restrictions	473,270
Accounts receivable	102,257
Grants receivable	219,857
Pledges receivable, with donor restrictions	50,000
Inventories	118,046
Prepaid expenses	25,095
	2,944,063

OTHER ASSETS

Pledges receivable, net of current, with donor restrictions	100,000
Deposits	3,868
Property and equipment, net	6,310,279
Investments, with donor restrictions, perpetual	2,592,990
	\$ 11,951,200

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 73,184
Accrued expenses	141,104
Deferred compensation, current portion	82,000
Line of credit	575,000
	871,288

OTHER LIABILITIES

Deferred compensation, net of current portion and discount	727,060
	1,598,348

NET ASSETS

Without donor restrictions	5,718,813
With donor restrictions	4,634,039
	10,352,852
	\$ 11,951,200

See notes to financial statements

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and support:			
Contributions	\$ 1,670,708	\$ 48,848	\$ 1,719,556
Grants	1,432,950	-	1,432,950
Special event revenue	\$ 408,226		
Less: costs of direct benefits to donor	(247,686)		
Net revenues from special events	160,540	-	160,540
In-kind donations	203,852	-	203,852
Program service fees	1,326,787	-	1,326,787
Sale of merchandise	174,780	-	174,780
Investment income	269,492	17,768	287,260
Rental income	3,550	-	3,550
	5,242,659	66,616	5,309,275
Net assets released from restriction	242,650	(242,650)	-
Total revenues and support	5,485,309	(176,034)	5,309,275
Expenses and losses:			
Program services	3,833,311	-	3,833,311
Supporting services:			
General and administrative	1,139,028	-	1,139,028
Fundraising	522,290	-	522,290
Total expenses and losses	5,494,629	-	5,494,629
DECREASE IN NET ASSETS	(9,320)	(176,034)	(185,354)
NET ASSETS, BEGINNING OF YEAR	5,728,133	4,810,073	10,538,206
NET ASSETS, END OF YEAR	\$ 5,718,813	\$ 4,634,039	\$ 10,352,852

See notes to financial statements

**ST. JUDE'S RANCH FOR CHILDREN, INC.**  
**AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Program Services	Supporting Services		Totals
		General and Administrative	Fundraising	
Salaries and wages	\$ 1,561,912	\$ 457,013	\$ 225,331	\$ 2,244,256
Employee benefits	154,601	43,216	28,570	226,387
Payroll taxes	146,169	42,497	19,507	208,173
Advertising	424	2,868	28,117	31,409
Audit and accounting fees	-	34,950	-	34,950
Automobile	58,960	-	218	59,178
Client support services	542,615	-	-	542,615
Client food	90,689	-	-	90,689
Client housing	294,884	-	-	294,884
Conferences and conventions	711	3,399	-	4,110
Entertainment and food	6,136	3,138	431	9,705
Depreciation	358,161	122,951	53,457	534,569
Dues and subscriptions	11,893	21,558	1,734	35,185
Employee costs	2,932	5,494	95	8,521
Event supplies	-	-	11,303	11,303
Honoraria	-	7,600	-	7,600
Insurance	118,824	27,352	-	146,176
Interest	-	31,250	-	31,250
Postage and shipping	1,777	6,365	2,636	10,778
Printing	10,310	12,859	5,531	28,700
Professional fees	129,906	53,595	80,838	264,339
Recognition and appreciation	4,399	6,907	781	12,087
Rent	43,308	-	-	43,308
Retirement	-	141,245	-	141,245
Small equipment and furniture	10,868	-	542	11,410
Software costs	42,541	19,091	5,499	67,131
Supplies	20,265	10,466	176,612	207,343
Taxes, licenses and fees	4,638	37,671	14,210	56,519
Thrift store	-	-	17,085	17,085
Travel	12,639	14,853	1,227	28,719
Utilities	203,749	32,690	23,484	259,923
Venue	-	-	72,768	72,768
	3,833,311	1,139,028	769,976	5,742,315
Costs of direct benefits, food and supplies to donors	-	-	(247,686)	(247,686)
	<u>\$ 3,833,311</u>	<u>\$ 1,139,028</u>	<u>\$ 522,290</u>	<u>\$ 5,494,629</u>

See notes to financial statements

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2019**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Decrease in net assets	\$ (185,354)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	534,569
Donated property and equipment	(41,292)
Donated inventory	(44,140)
Changes in deferred compensation	141,245
Realized and unrealized gain on investments	(114,735)
(Increase) decrease in operating assets:	
Accounts receivable	(13,407)
Grants receivable	(198,739)
Pledge receivable	100,000
Inventory	2,021
Prepaid expenses	18,144
Increase (decrease) in operating liabilities:	
Accounts payable	32,407
Accrued expenses	15,957
	<hr/>
Net cash provided by operating activities	246,676
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of investments	(538,470)
Proceeds from sale of investments	407,921
Purchases of property and equipment	(56,079)
Proceeds from sale of fixed assets	1,700
	<hr/>
Net cash used in investing activities	(184,928)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Payments of accrued deferred compensation	(82,000)
	<hr/>
Net cash used in financing activities	(82,000)
	<hr/>

See notes to financial statements

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2019**

NET DECREASE IN CASH	\$ (20,252)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>1,058,878</u>
CASH AND EQUIVALENTS, END OF YEAR	<u><u>\$ 1,038,626</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	<u><u>\$ 31,250</u></u>
Cash and cash equivalents	\$ 933,482
Cash and cash equivalents, restricted	<u>105,144</u>
	<u><u>\$ 1,038,626</u></u>

See notes to financial statements

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Organization and Nature of Activities*

St. Jude's Ranch for Children, Inc. and Subsidiaries (the Organization) is a nonprofit organization, including St. Jude's Ranch for Children – National (National), St. Jude's Ranch for Children – Nevada Region (Nevada Region), St. Jude's Ranch for Children – Charitable Foundation (Foundation), Hope Shines Bright Receiving Company (Receiving Company) and Hope Shines Bright Holding Company (Holding Company)

The Organization's primary charitable purpose is to transform the lives of abused and at-risk children, young adults and families through residential and community-based foster care, counseling of pregnant and parenting teens, providing transitional and supportive housing environments, emergency placement of children in crisis, and related programs.

National

National, which is incorporated under the laws of the State of Nevada, as the sole member, controls the Nevada Region, a 501(c)(3) not-for-profit organization, referred to as a subsidiary. These entities are required under generally accepted accounting principles to be consolidated as they are financially interrelated. The function of National is to oversee the affiliate and provide financial and operational assistance to the affiliate. As of July 1, 2008, the Foundation was created to support the Organization and the subsidiary. The Foundation is a wholly separate Nevada nonprofit corporation and its assets and liabilities are separate and segregated from the Organization's assets and liabilities. In 2011, the Holding Company and the Receiving Company were created to support the Organization's donation activity. The Foundation, Holding Company and Receiving Company operate out of Boulder City, Nevada, and hold separate Internal Revenue Service exempt determination letters and are required to be reported separately for federal compliance purposes. National is the specified beneficiary of the Foundation, the Holding Company and the Receiving Company.

Nevada Region

Nevada Region, which is supported by National, is a nonprofit organization incorporated under the laws of the State of Nevada. The Organization includes three nonsectarian facilities, one located in Boulder City, Nevada, and two located in Las Vegas, Nevada. The facility located in Boulder City, Nevada is licensed by the Clark County Department of Child and Family Services of the State of Nevada to care for a maximum of 66 children, from infant to 21 years of age. The facility has ten homes which are not mixed by gender, but are mixed by age and ethnic background, where these children live and receive residential therapeutic foster care services. These services include basic, moderate, and specialized residential foster care, transitional living care, or pregnant and parenting teen care, in a home-like environment. The Crossings program, located in Las Vegas, Nevada, serves as a 15-unit apartment style building owned by the Organization, which provides supportive housing and services for homeless youth ages 18 to 25. The third facility, also located in Las Vegas, Nevada, serves as the office for the Sibling Preservation Program, which is devoted to the mission of preserving sibling bonds while children are in foster care as well as for other agency programs such as family support and a rapid re-housing program.

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foundation

The Foundation is a nonprofit organization and was incorporated under the laws of the State of Nevada on July 1, 2008. The Foundation is located in Boulder City, Nevada and was organized to support the Organization and its affiliates. The Foundation is supported primarily through state and local government contracts, as well as donations from individuals, corporations, and foundations throughout the United States.

Holding and Receiving Companies

The Holding and Receiving Companies are nonprofit organizations and were incorporated under the laws of the State of Nevada on May 31, 2011. The Holding Company was organized for the purpose of acquiring, holding title to, collecting income from, and managing real property. The Receiving Company was organized to serve as a supporting organization to National. There has been no activity in either company since they were created.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

The accompanying consolidated financial statements include the accounts of National, Nevada Region, Foundation, Holding Company, and the Receiving Company. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC). Under FASB ASC, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions as follows:

**Net Assets With Donor Restrictions** – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Net Assets Without Donor Restrictions** – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated from net assets without donor restrictions.

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Income Tax Status*

The Organization is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes on related income pursuant to the appropriate section of the Internal Revenue Code.

*Investments*

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported on the consolidated statement of financial position at fair value. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

*Accounts Receivable and Grants Receivable*

Accounts and grants receivable consists of amounts due from state and county agencies for services provided in the care for children. Receivables are stated at the amount management expects to collect from outstanding balances. It is the Organization's policy to charge off uncollectible accounts receivable for program fees when management determines the receivable will not be collected. The program fees are delinquent when not received within the contractual terms. The Organization estimates an allowance for doubtful accounts based on periodic assessment. If receivables become uncollectible, the balance will be changed to expense when the determination is made. All amounts recorded are expected to be received within one year and no allowance is recognized.

*Pledges Receivable*

Pledges are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional pledge receivables are recognized when the conditions on which they depend are substantially met. No allowance has been recorded as all amounts are considered to be fully collectible.

*Inventories*

Inventories, consisting of purchased goods, are recorded at net realizable value. Donated inventories are valued at fair market value on the date of donation.

*Property and Equipment*

Purchased assets are recorded at cost and donated assets are recorded at their fair market value at the date of the donation. The Organization capitalizes all fixed assets in excess of \$1,000 and with a useful life of greater than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Property and Equipment (Continued)*

Furniture and fixtures, vehicles, software and equipment	3 to 10 years
Land improvements	3 to 25 years
Buildings	25 to 39 years

*Contributions*

The Organization reports gifts of cash and other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions support in that period.

*Expense Allocation*

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The following expenses were allocated on the basis of employee time and effort: payroll taxes and salaries and wages.

The following expenses were allocated on a square footage basis: depreciation and utilities.

The following expenses were directly allocated by function based on the nature of the expense: advertising, audit and accounting fees, automobile, client support services, client food, client housing, conferences and conventions, entertainment and food, dues and subscriptions, employee costs, event supplies, honoraria, insurance, interest, postage and shipping, printing, professional fees, recognition and appreciation, rent, retirement, small equipment and furniture, software costs, supplies, taxes, licenses and fees, thrift store and travel.

The following expenses were allocated on the basis of a combination of employee time and effort and directly by function based on the nature of the expense: employee benefits.

*Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Impairment of Long-Lived Assets*

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measure by the amount which the carrying amount of the assets exceeds the fair value of the assets.

*Cash and Cash Equivalents*

Cash and cash equivalents consist of cash-on-hand, highly-liquid investments with maturities of three months or less at the date of purchase and gift cards.

*Consolidated Statements*

The consolidated financial statements include the financial information of the St. Jude's Ranch for Children, Inc. and its interrelated entities, which include National, Nevada Region, Foundation, Holding Company and Receiving Company. St. Jude's Ranch for Children, Inc. and its interrelated entities are consolidated because the Organization holds common control of the campuses through a majority voting interest in its governing board. All material inter-organizational transactions have been eliminated.

*Advertising*

Advertising costs are expensed as incurred.

*Subsequent Events*

Subsequent events have been evaluated through October 8, 2019, which is the date the consolidated financial statements were available to be issued.

*New Accounting Pronouncement*

On August 16, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses. The Organization has adopted the provisions of ASU 2016-14 during the year ended June 30, 2019, and has adjusted the presentation of these statements accordingly.

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019**

NOTE 2. INFORMATION REGARDING LIQUIDITY AND AVAILABILITY

The Organization is substantially supported by contribution, grant, and program revenues and considers contributions restricted for programs which are ongoing, major, and central to its operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The following table reflects the financial assets as of June 30, 2019, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date:

Cash and cash equivalents	\$ 1,038,626
Investments	3,983,172
Accounts receivable	102,257
Grants receivable	219,857
Pledges receivable, current	<u>50,000</u>
Total financial assets	5,393,912
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose or time restrictions, peripheral	(578,414)
Restricted by donors in perpetuity	<u>(2,592,990)</u>
Total amounts unavailable for general expenditures within one year	<u>(3,171,404)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 2,222,508</u>

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2019:

Buildings	\$ 11,123,511
Land improvements	922,648
Computer equipment	213,758
Furniture and fixtures	396,859
Equipment	554,140
Vehicles	159,628
Land	<u>104,180</u>
Total property and equipment	13,474,724
Less: accumulated depreciation	<u>(7,164,445)</u>
	<u>\$ 6,310,279</u>

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019**

NOTE 4. PLEDGES RECEIVABLE

The pledges receivable balance consists of a pledge to be received in \$50,000 installments for a total of \$150,000. Subsequent to June 30, 2019, \$50,000 was collected and, therefore, this amount is presented as current in the statement of financial position. There is no set payment schedule for the pledge, but the Organization expects to collect the pledge over the next two years.

NOTE 5. INVESTMENTS AND FAIR VALUE

In accordance with the FASB ASC 820-10, the following are quantitative disclosures about the fair value measurements of assets. Fair value measurements are categorized on three levels:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities, which are traded by dealers and brokers in active markets. Valuations are obtained from readily available pricing.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Valuations incorporate certain unobservable assumptions and projections in determining the fair value assigned to such assets and liabilities.

Investments measured at fair value on a recurring basis at June 30, 2019, are summarized as follows:

	<u>Level 1</u>	<u>Total</u>
Equities:		
Common stock	\$ 1,826,839	\$ 1,826,839
Mutual funds	1,560,292	1,560,292
Fixed income:		
U.S. government securities	<u>596,041</u>	<u>596,041</u>
	<u>\$ 3,983,172</u>	<u>\$ 3,983,172</u>

NOTE 6. LINE OF CREDIT

The Organization has a line of credit under which the Organization may borrow on a secured basis at the Prime Rate with credit totaling \$1,500,000. The Prime Rate at June 30, 2019 was 5.5%. Borrowings under the agreement are collateralized by the property in Boulder City, Nevada. The Organization has an outstanding balance of \$575,000 as of June 30, 2019. The credit agreement is scheduled to mature on August 31, 2019. Subsequent to year-end, the Organization received a renewal to November 30, 2019.

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019**

NOTE 7. DEFERRED COMPENSATION ARRANGEMENT

In April 2001, a separation agreement was entered into between the Organization and a former officer. The present value of the benefits expected to be paid to the former officer (or beneficiaries) was recognized as expense in the period at the time the Board of Directors approved the plan of separation, which was June 30, 2001.

During the year ended June 30, 2019, an actuarial valuation was performed for the deferred compensation agreement and an adjustment was made to record an additional expense and increase the liability by \$90,856, as the life expectancy of the former employee is now beyond the original estimate. The present value of the benefits recognized as of June 30, 2019, amounted to \$809,060. The Organization's current obligation is payable in monthly installments of approximately \$6,833. The discount rate used to compute the estimated present value was 4% during the year ended June 30, 2019. The Organization also recorded amortization of the discount on the estimated present value of the future payments of \$50,389 during the year ended June 30, 2019. These amounts are included in the consolidated statement of functional expenses as retirement expense.

NOTE 8. OPERATING LEASES

The Organization leases office space for its Child Focus program which expires in July 2020. The Organization also leases office equipment under operating leases expiring in May 2020 and August 2023. Total rent expense is \$59,791 for the year ended June 30, 2019. The future minimum payments under these operating leases at June 30, 2019 are as follows:

2020	\$ 63,278
2021	9,445
2022	5,273
2023	<u>659</u>
	<u>\$ 78,655</u>

NOTE 9. CONCENTRATIONS

The Organization maintains cash balances in banking institutions located in Nevada. Cash balances held by the banking institutions are insured up to the Federal Deposit Insurance Corporation insurance limit of \$250,000. As of June 30, 2019, the total uninsured cash balance in these accounts was \$297,340.

The entire pledges receivable balance was due from one donor.

The Organization receives all program service fees from the State of Nevada.

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019**

NOTE 10. DONATED SERVICES

Donated services are recognized as contributions in accordance with FASB Codification, if the services (a) create or enhance nonfinancial assets or (b) requires specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Donated professional services for the year ended June 30, 2019 were \$39,707, which included \$23,882 in capitalized improvements.

NOTE 11. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes or periods at June 30, 2019:

Subject to expenditure for a specified purpose:

Education skills training	\$ 49,487
Youth care operations	<u>55,657</u>

Total subject to expenditure for specified purposes	105,144
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Subject to passage of time:

Pledges receivable	150,000
The Crossings property	<u>1,312,635</u>

Total subject to passage of time	1,462,635
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Endowments:

Subject to endowment spending policy and appropriations:

Education skills training	473,270
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Endowments:

Investment in perpetuity	<u>2,592,990</u>
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Total net assets with donor restrictions	<u>\$ 4,634,039</u>
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Net assets with donor restrictions consist of the following at June 30, 2019:

Cash	\$ 105,144
Investments	473,270
Investments, long-term	2,592,990
Pledges receivable	150,000
Land and building	<u>1,312,635</u>
	<u>\$ 4,634,039</u>

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019**

NOTE 11. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

The restricted land and building is property that was purchased by the Organization on August 17, 2011, on which housing was built for the St. Jude's Ranch Crossings, a supportive housing program. The parcel of land, which was valued at \$65,000 has an attached deed restriction of 20 years to be used for the Organization's program. If the Organization loses possession of the land or enters into a sublease without prior approval, the Organization must pay Clark County \$1,954,439. The restrictions to the land attach to the property and any successor owners. The restricted grant amount of \$1,954,439 and land value of \$65,000 for a total of \$2,019,439 is amortized over 20 years beginning in June 2012.

Net assets in perpetuity consist of endowment fund investments to be held indefinitely.

Net assets were released from donor restrictions during the year by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by the donors as follows for the year ended June 30, 2019:

Satisfaction of purpose restrictions:	
Youth care operations	\$ 20,417
Campus renovations	<u>13,407</u>
	33,824
Expiration of time restrictions:	
Pledges receivable	100,000
Land and building	<u>100,972</u>
	200,972
Endowments:	
Subject to endowment spending policy and appropriations:	
Education skills training	<u>7,854</u>
	<u>\$ 242,650</u>

NOTE 12. ENDOWMENTS

Endowment funds include amounts to be used for education and skills training and a balance that will remain in perpetuity. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The endowment funds consist of the following assets as of June 30, 2019:

Cash and equivalents	\$ 245,573
Investments	<u>3,965,610</u>
	<u>\$ 4,211,183</u>

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019**

NOTE 12. ENDOWMENTS (CONTINUED)

*Interpretation of Relevant Law*

The Board of Directors of the Organization has interpreted Nevada state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions in perpetuity (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as net assets with restrictions in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in accordance with the donor's wishes.

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

*Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Organization has a current policy of retaining the earnings within the endowment fund until such time that the Board has determined specific expenditures in which to use the earnings not restricted by the donor. This policy is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

*Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature would be included in net assets without donor restrictions. There were no deficiencies at June 30, 2019.

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019**

NOTE 12. ENDOWMENTS (CONTINUED)

*Return Objectives and Risk Parameters*

The Organization has adopted investment and spending policies for endowment assets, the primary emphasis of which is on capital growth. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results attainable over a more than ten-year time frame. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately equal to that of the overall market for similar investment types. Actual returns in any given year may vary from this rate of return.

Changes in endowment net assets for the year ended June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds:			
Perpetual in duration - original gift amount	\$ -	\$ 2,592,990	\$ 2,592,990
Donor restricted endowment funds:			
Education and skills training	<u>1,144,923</u>	<u>473,270</u>	<u>1,618,193</u>
	<u>\$ 1,144,923</u>	<u>\$ 3,066,260</u>	<u>\$ 4,211,183</u>

Changes in endowment net assets for the year ended June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 900,904	\$ 3,056,346	\$ 3,957,250
Investment return, net	236,165	17,768	253,933
Appropriation of endowment assets for expenditure	<u>7,854</u>	<u>(7,854)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 1,144,923</u>	<u>\$ 3,066,260</u>	<u>\$ 4,211,183</u>

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019**

NOTE 12. ENDOWMENTS (CONTINUED)

*Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
St. Jude's Ranch for Children, Inc. and Subsidiaries  
Boulder City, Nevada

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of St. Jude's Ranch for Children, Inc. and Subsidiaries (collectively, the Organization) (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 8, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Certified Public Accountants  
**20** YEARS & COUNTING

HOULDSWORTH, RUSSO & COMPANY

8675 S. Eastern Avenue | Las Vegas, Nevada 89123 | P: 702.269.9992 | F: 702.269.9993 | [www.trustHRC.com](http://www.trustHRC.com)

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Howdsworth, Russo & Company, P.C.

Las Vegas, Nevada  
October 8, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM  
GUIDANCE**

Board of Trustees  
St. Jude's Ranch for Children, Inc. and Subsidiaries  
Boulder City, Nevada

**Report on Compliance for Each Major Federal Program**

We have audited St. Jude's Ranch for Children, Inc. and Subsidiaries' (collectively, the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2019. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

*Opinion on Each Major Federal Program*

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

*Other Matters*

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

Certified Public Accountants  
**20 YEARS & COUNTING**

The Organization's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Houldsworth, Russo & Company, P.C.*

Las Vegas, Nevada  
October 8, 2019

**ST. JUDE'S RANCH FOR CHILDREN, INC.  
AND SUBSIDIARIES  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2019**

Grantor Agency	Program Title	Federal CFDA Number	Pass-Through Grantor Number	Expenditures
U.S. Department of Housing and Urban Development	Continuum of Care Program	14.267	NV0036L9001705 NV00119L9T001700 NV0082L9T001704 NV0034L9T001706	\$ 344,610 322,549 25,006 12,131 <u>704,296</u>
Passed through Clark County, Nevada:				
U.S. Department of Housing and Urban Development	Emergency Solutions Grant	14.231		36,860
Passed through the City of Las Vegas:				
U.S. Department of Housing and Urban Development	Emergency Solutions Grant	14.231		<u>3,804</u> 40,664
Passed through the City of Las Vegas:				
U.S. Department of Housing and Urban Development	Community Development Block Grant Entitlement Grants Cluster	14.218		<u>68,250</u>
U.S. Department of Housing and Urban Development Total				<u>813,210</u>
Passed through the State of Nevada Division of Child and Family Services:				
U.S. Department of Justice	Victims of Crime Act	16.575	16575-17-047	87,318
Passed through the State of Nevada Division of Child and Family Services:				
U.S. Department of Health and Human Services	Title IV-B Grant	93.556	93566-18-013	50,000
Passed through the State of Nevada Department of Agriculture				
U.S. Department of Agriculture	National School Lunch Program Child Nutrition Cluster	10.555	R-2110-09	<u>49,512</u>
				<u>\$ 1,000,040</u>

See notes to financial statements

**ST. JUDE'S RANCH FOR CHILDREN, INC. AND SUBSIDIARIES**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2019**

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes federal award activity of the Organization under programs of the federal government for the year ended June 30, 2019. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule only presents a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of the Organization.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. Cost principles are recognized following the cost principles contained in the Uniform Guidance.

For various grants, the Organization has been allowed to charge reasonable administrative and overhead charges, as allowable per the specific grant agreements and, therefore, elected not to use the 10 percent de minimis indirect cost rate as allowed under Uniform Guidance.

NOTE 3. PASS-THROUGH AWARDS

The Organization received certain federal financial assistance from pass-through awards of the pass-through entities listed on the schedule of expenditures of federal awards.

**ST. JUDE'S RANCH FOR CHILDREN, INC. AND SUBSIDIARIES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019**

**SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements*

1. The auditor's report expresses an unmodified opinion on the consolidated financial statements of the Organization.
2. No instances of material weaknesses or significant deficiencies related to the audit of the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
3. No instances of noncompliance material to the consolidated financial statements of the Organization, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

*Federal Awards*

4. One significant deficiency related to the audit of the major federal award program is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the Organization expresses an unmodified opinion.
6. Audit findings required to be reported in accordance with 2 CFR 200.516 (a) are reported in this schedule.
7. The program tested as a major program was the U.S. Department of Housing and Urban Development Continuum of Care Program, CFDA #14.267.
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. The Organization does not qualify as a low-risk auditee.

**FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENT AUDIT**

None.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT**

2019-001: U.S. Department of Housing and Urban Development, Continuum of Care Program, CFDA #14.267, Internal Control System and Compliance Over Special Tests and Provisions – Rent Reasonableness

*Criteria:* As defined in 2 CFR 200.62, auditee is required to maintain a system of internal control over compliance designed to provide reasonable assurance that federal award transactions executed are in compliance with the terms and conditions of the federal award. When federal award funds are used to pay rent for individual housing units, the rent paid must be reasonable in relation to rents being charged for comparable units and the rent may not exceed HUD determined fair market rents.

**ST. JUDE'S RANCH FOR CHILDREN, INC. AND SUBSIDIARIES  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2019**

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM AUDIT  
(CONTINUED)**

*Condition:* Of the five leases selected for testing, two leases charged rent in excess of HUD fair market rent.

*Cause:* The internal control system over rent reasonableness was not operating effectively. The rent amount per the executed lease was not consistently verified against the HUD prescribed fair market rent amount.

*Context:* Based on the procedures performed, this appears to be a systemic problem. The internal control system, as defined, did not operate effectively for 40% of the items selected for testing.

*Effect:* The charging of rent amounts in excess of HUD-defined fair market rent is in violation of the terms of the federal grant agreement.

*Recommendation:* We recommend management design and implement a system of internal controls whereby all lease agreement, prior to execution, are reviewed and verified to be in compliance with applicable federal award agreement terms, to include conformance to HUD-defined fair market rents.

*Views of Responsible Officials:* Upon discovering leases that exceeded fair market rent (FMR), the Organization took immediate action and performed a full review of all lease and rental payments in fiscal year 2019 and current. Immediately, policy and procedures revisions were implemented to ensure that before any rental or lease agreements are signed or approved for payment there is process in place that confirms FMR. All initial leases and payments must be accompanied by documentation of a Rent Reasonableness form confirming FMR and copy of lease outlining monthly rental payments and inclusions, i.e. utilities. Any rental and lease payments without Rent Reasonableness Forms will not be approved for payment.